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JPRS L/8689

28 September 1979

Japan Report

(FOUO 28/79)

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POLITICAL AND SOCIOLOGICAL

JCP MEMBERS DENOUNCE DISSOLUTION OF DIET

Tokyo JPS in English 0920 GMT 8 Sep 79 OW

[Text] Tokyo, Sep 8, JPS--The Liberal Democratic Party-Ohira cabinet on September 7 enforced the dissolution of the Diet with its own partisan interests and in collusion with the Socialist, Komei and Democratic Socialist parties. The 35th general election thus was decided to be proclaimed on September 17 and the voting on October 7.

The Socialist, Komei and Democratic Socialist parties on September 7 presented a non-confidence motion in the lower house plenary session, thus helping the dissolution of the Diet by the LDP. The Communist Party argued that although the Ohira cabinet is not worthy of confidence, but the presentation of non-confidence motion to the Diet at this state is nothing but to lend a hand to such LDP maneuver, to arbitrarily dissolve the Diet without holding deliberation on bills relating to people's urgent needs. The Communist Party thus severely criticized such moves and did not join in presenting the motion.

The JCP Dietmembers' (?group) on the same day held a general meeting and was resolved to win a victory of the party in the general election. Presidium Chairman Kanji Miyamoto said, "Let us put an end to the mal-administration of the LDP and achieve well the big task to establish new Japan in the 1980's".

Miyamoto called on the Dietmembers to "do their best to defeat the LDP and at the same time defeat the anti-communist parties which have lent a hand to the LDP even at the final stage of the Diet, and concentrate severe criticism on all these parties. Let us win a victory of the JCP, a genuine progressive party".

On behalf of the incumbent JCP Dietmembers, Secretariat Chief Tetsuzo Fuwa also expressed his determination, saying "we shall meet here again as a winner". 131 JCP candidates for the general election on the same day in front of major station bills throughout the country and took to the street for campaign. [Sentence as received] They denounced the "collusive dissolution of the Diet" and appealed to the people to give support to the JCP for its victory.

CSO: 4120

POLITICAL AND SOCIOLOGICAL

EXPERT VIEWS AIM OF OHIRA-CALLED GENERAL ELECTION

Tokyo MAINICHI DAILY NEWS in English 5 Sep 79 p 4 OW

["Nagatocho Doings" column, by Takehiko Takahashi, adviser to the MAINICHI newspapers and former chief editorial writer: "An Increase of the Ohira Faction Is the Aim of the General Election"]

[Text] Prime Minister Masayoshi Ohira has finally succeeded in making a dissolution of the House of Representatives and a general election "definite."

Why has Prime Minister Ohira decided to carry out a Diet dissolution this autumn? There may be high-level political reason for this. On the other hand, the reasons lying in a low dimension cannot be ignored.

The most important political problem facing Prime Minister Ohira is to be reelected as president of the Liberal-Democratic Party in next year's party election. Because of this, he believes it necessary to increase the number of pro-Ohira party members and Diet members.

Most party members belong to associations supporting Diet members. Accordingly, to increase the number of pro-Ohira Diet members will have the same meaning as increasing the number of party members supporting Ohira.

In order to increase the number of pro-Ohira Diet members, it is essential to increase the number of formally recognized candidates attached to the Ohira faction and to give them sufficient financial support. For this purpose, the party's secretary general, who belongs to the Ohira faction, must take command of the general election.

At the time when Ohira became the LDP president, confusion rose within the party over the secretary general's post. The newspapers reported that although President Ohira had at first considered Zenko Suzuki for the post, the Fukuda faction and others raised objections and Ohira suddenly switched to Kunikichi Saito.

Nevertheless, at a meeting recently of the party's reform headquarters, Ohira declared, "I had thought of Saito as the secretary general from the beginning. It was not a temporary move."

The Truth

It is believed that this statement by Ohira is the truth. This is supported by the Ohira faction's report on political funds that was made public recently. From about July last year, a considerable amount of money was disbursed by the Ohira faction in preparation for the party presidential election. In most cases, Saito was the recipient of this money. This means that the present Secretary General Saito was a man whom Ohira trusted the most in the handling of the money.

The Ohira-Saito combination had already been formed at that time.

The term of office of the secretary general and other party officers is one year. When December comes, if the secretary general is again from the Ohira faction, the rise of anti-Ohira feeling within the party will become inevitable. It might be necessary to give up the selection of the secretary general from the Ohira faction.

Under such circumstances, it is essential for the general election to be held while Secretary General Saito still retains his post. If that is done, it will be possible to carry out drastic measures to in order to increase pro-Ohira strength.

This strategy of Prime Minister Ohira and Secretary General Saito of the Ohira faction is being strongly opposed by the Fukuda, Miki and Nakasone factions.

On August 23, Takeo Fukuda, Takeo Miki and Yasuhiro Nakasone met. The biggest problem taken up during the talk was the Ohira faction's strong attitude toward the forthcoming general election.

This concerns, first of all, the problem of those informally decided as party-recognized candidates. It is the attempt of the Ohira faction to eliminate those newly seeking to become candidates from the anti-mainstream factions in favor of those filling candidacies from the Ohira faction.

Difference

In an election, there is a big difference between candidates formally recognized by the party and those who are not. If formally recognized, financial help will be forthcoming from the party and they can be assisted directly in local regions by Diet members belonging to the LDP. In addition, influential LDP politicians will go to the aid of formally recognized candidates.

There will be none of this kind of support for a candidate who is not formally recognized by the party and who runs as an independent conservative. Accordingly, there are some who may give up their candidacy just because they fail to be formally recognized. This is what the Ohira faction is aiming at in order to achieve "success in strategy."

The distribution of influence among LDP factions in the House of Representative is: Fukuda faction 52, Tanaka faction 42, Nakasone faction 42, Ohira faction 35 and Miki faction 34.

The Ohira faction is seeking to expand its Diet seats to 50 at one stroke in the forthcoming general election. When the Tanaka faction, median factions and nonfaction Diet members are added, Ohira's reelection in the next party presidential election will be assured.

Prime Minister Ohira's plan is advancing steadily. At the same time, this strong attitude of the Ohira faction also carries the danger of resulting in a "split election" that will prove to be a minus factor. There is a possibility that this will also affect the post-election political situation.

CSO: 4120

POLITICAL AND SOCIOLOGICAL

LDP CANDIDATES USE U.S. METHOD TO RAISE FUNDS

Tokyo ASAHI EVENING NEWS in English 5 Sep 79 p 3

[THE NATION column by Kimpei Shiba: "Japan: Today and Yesterday"]

[Text] The way the Liberal-Democratic Party conducts it, the new method of collecting election funds, which is patterned after that in the United States, is worse than the old system whose faults the new system was meant to correct.

This is because LDP politicians have put a peculiarly Japanese twist to the American fund-raising arrangement of holding luncheons and dinners and having guests fork out say $50 for a meal that might cost only $5, the remainder of the money being contributed to the candidates' election fund.

The Japanese were compelled to adopt this practice following passage of the Political Fund Control Law which set a ceiling of ¥150 million a year on the political contributions any of the nation's biggest corporations could make.

The law became necessary to put the overly cozy relations between Tory politicians and big business under restraint.

To understand the significance of what is happening, it is necessary to explain what the situation was in former times.

Before World War II, the Japanese counterparts of the American Democratic and Republican parties were the Seiyukai and the Minseito, both of which were conservative. The former was financed by the Mitsui zaibatsu and the latter by the Mitsubishi, which were the two main big business corporations.

After World War II, the zaibatsu and the political parties were dissolved, and a multiparty system was inaugurated. There was a state of confusion for a time, but things settled down in 1955 when the two Socialist parties joined to become the Japan Socialist Party, and the two conservative parties united to become the Liberal-Democratic Party.

The Socialists and the Communists constituted the left-wing parties, and the LDP became the representative of the conservative forces.

The LDP obtained financial support from big business, but with the dissolution of the zaibatsu, their funds came from scores of large companies, not from the two giants. Bribery and corruption became so rife that after the Lockheed scandal it was necessary to curb the shameless manner in which the LDP collected political contributions from big business, and in return took care of the contributors by giving them preferential treatment.

The Opposition parties obtained their votes in a different way. The Communists and Socialists were backed by workers and intellectuals; the

Komeito (Clean Government Party) obtained its votes from the Soka Gakkai religious organization of which it was an offshoot; and the Minshato (the Democratic Socialist Party) from the moderate labor unions and other middle-of-the-roaders.

As already noted, the Political Fund Control Law was meant to limit contributions from big business. The LDP decided to get around this by adopting the American fund-raising method by adding, as I noted, a peculiar Japanese twist.

This is because there is a huge difference between the LDP, on the one hand, and the Democratic and Republican parties in America, on the other. The LDP depends on contributions from big business whose interests override those of the people. The Democrats and Republicans, on the other hand, depend on votes from the people, whose interests are more important than those of big business.

Whereas in America there is nothing unusual in people staging a party for the political parties to raise campaign funds, in Japan the practice of the LDP was to give parties for the voters, not vice versa.

So a shocking thing is happening.

According to accusations made by political commentators, money for the fund-raising campaigns is being extracted from thousands of medium and small construction companies which engage in road and other public construction activities. This is done, investigators say, in this roundabout manner:

The construction companies depend for their contracts on bureau and section chiefs in government ministries. The only thing these officials fear are members of the Diet, who can make life miserable for them.

A bureaucrat nearing retirement who occupies a high position and is in line for a "descent from Heaven," that is, obtaining a lush job in a semi-governmental organization, could lose that chance if LDP Diet members set their minds on blackballing him.

So these top bureaucrats look askance as LDP candidates force low-level bureaucrats to get the construction companies to buy batches of from 20 to a 100 campaign raising luncheon and dinner tickets which cost from ¥20,000 to ¥30,000 each. The companies depend on the bureaucrats for their contracts and dare not refuse.

An LDP candidate is able to raise between ¥20 and ¥90 million in this manner.

Japanese bureaucrats have an enviable reputation for honesty. What effect having to compel greedy private construction companies to hand out what amounts to bribes to the politicians will have is frightful to conjecture.

As already noted, an LDP candidate will be able to raise between ¥20 and ¥90 million at fund-raising parties. He will receive an additional ¥7 million from the LDP and may obtain ¥10 million from other sources.

The minimum an incumbent LDP candidate needs to be elected is ¥40 million. The average amount is ¥100 million. A newcomer has to spend at least ¥200 million to be elected.

It is expected that the LDP will run between 300 and 350 candidates and will increase its present 250-odd seats by between 10 and 20 at the expense of the Opposition parties.

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POLITICAL AND SOCIOLOGICAL

BRIEFS

OHIRA'S PRC VISIT PREPARATIONS--The Japanese Government is planning to send a fact-finding delegation to China--this month if possible--to promote economic cooperation projects, a Foreign Ministry source disclosed on 3 September. This disclosure came after Prime Minister Ohira, during his meeting with PRC Vice Premier Gu Mu the same day, made a positive response to a PRC request for yen loans. The Japanese delegation's mission is believed to be to pave the way toward realizing Prime Minister Ohira's visit to China by the end of this year. The delegation is expected to be made up of officials from the foreign, international trade and industry, transportation and other ministries concerned, as well as staff members of government-related organizations such as Kokusai Kyoryoku Jigyodan. It can be said that the sending of the delegation at this time indicates that the government has started to seriously tackle problems concerning economic cooperation with China. The same source also disclosed that Japan wants to conclude a cultural agreement and a science-technology cooperation agreement with China during the prime minister's visit. [Text] [Tokyo MAINICHI SHIMBUN in Japanese 4 Sep 79 Morning Edition p 1 OW]

CSO: 4105

ECONOMIC

'YOMIURI' CRITICAL OF COUNCIL'S REPORT ON LONG-RANGE ENERGY PROSPECTS

Tokyo THE DAILY YOMIURI in English 2 Sep 79 p 2 OW

[Editorial: "Makeshift Energy Policy"]

[Text] The Comprehensive Energy Council's interim report on the nation's long-range energy prospects fails to convince us as being realistic.

The report is merely warmed-over stew. It's a rehash of the preliminary seven-year economic projections prepared in 1977, which served as the basis for setting oil import targets at the Tokyo summit.

Once upon a time, in the good old days when we were assured plentiful supplies of oil, it was possible to fix the economic growth rate and then calculate how much energy was needed to attain the set target. It wasn't a foolproof formula, but it somehow worked.

We now discover that the Comprehensive Energy Council, an advisory organ to the International trade and industry minister, is still using this archaic method in working out its latest estimates when we are not even assured of stable supplies of oil. It's placing the cart before the horse to figure out energy demand when there may be no supply at all.

Juggling the Books

It's reported that members of the council stretched the estimates of energy supply in order to balance it with demand so as to attain a 5.7 percent growth rate in the seven-year economic program.

Originally, it is to be recalled, the nation's economic growth rate was set at under 4 percent based on a calculation of possible energy supplies.

However, an order went out from on-high to attain a 5.7 percent growth rate and the books were reportedly juggled to stretch the energy supplies.

When the seven-year economic program was mapped out, it was calculated that we would need to import 7 million barrels of oil a day in 1985 to sustain a 5.7 percent growth rate.

But at the Tokyo summit Japan's import target was reduced to between 6.9 million and 6.3 million barrels for 1985.

The current economic projections are based on an import target of 6.3 million barrels a day in 1985. The shortfall is to be made up by energy-saving measures and developing alternative energy sources.

Desk-top Calculation

Can such an important matter as the nation's seven-year economic program be left to a simple desk-top calculation?

It may be argued that it was necessary to maintain a consistent government economic policy and the projections had to be made to match up.

We feel that the council should have given the matter more thought and put in a more reliable report.

It may be possible to maintain a high economic growth rate even if energy supplies fall short by changing the industrial structure.

However, real economic policy needs to consider what steps are necessary to tide over a crisis such as an energy shortage.

Only Japan among the nations that participated in the Tokyo summit continues to commit itself to a 5-6 percent growth rate. And, it is only Japan that continues to estimate its energy supply and demand in such a makeshift manner.

CSO: 4120

ECONOMIC

JAPAN INDUSTRIAL INVESTMENTS MAY RISE 13 PERCENT IN FISCAL 1979

Tokyo MAINICHI DAILY NEWS in English 5 Sep 79 p 5 OW

[Text] Industrial capital investments by big corporations in Fiscal 1979 (April 1979-March 1980) are expected to reach 9,598 billion yen, up 13 percent over the preceding fiscal year, a Japan development bank report says.

The state-financed bank surveyed 1,467 business corporations capitalized at 1 billion yen or more about their investment plans as of August.

The total figure represented a 7.3 percent upward revision from a similar survey conducted last February.

Investments by manufacturing firms will advance 19 percent over a year before for the first year-to-year gain in five years. Those by nonmanufacturing firms will increase 9.1 percent, representing the fourth straight year-to-year gain.

Investments by manufacturers in the first half (April-September) of Fiscal 1979 will sharply advance 18.9 percent over the preceding six-month term. Those in the second half (October-March 1980) will drop 8.4 percent from the previous April-September period.

In contrast, investments by nonmanufacturers in the first half will decline 10.9 percent but those in the latter half will climb 11.8 percent. This is chiefly because investments by the electric power industry in the first half will drop 11 percent but those in the second half will increase 11 percent.

By industry, materials will register a remarkable 19.6 percent gain in investments thanks to an improvement in the demand-supply situation. Notably, the chemical industry will increase 25 percent, textile also 25 percent and paper-pulp 36 percent. Food and electric machinery will move up 20 percent or more because of brisk consumer demand.

Airline, retail, wholesale and construction were notable in investment growth among nonmanufacturing industries.

By investment motive, an expansion in output capacity was cited most by 26.9 percent of the manufacturing firms and by 71.6 percent of the non-manufacturing companies.

Promotion of research and development was given by 7.8 percent of the total, compared with 6.5 percent in the February survey.

CSO: 4105

ECONOMIC

AMBITIOUS 5-YEAR OFFSHORE OIL PROGRAM MOVING AHEAD

Tokyo MAINICHI DAILY NEWS in English 8 Sep 79 p 7

[Text]

Japan is going to press ahead with an ambitious five-year plan to bring up oil and gas believed deposited offshore.

An organization named Nihon Kaiyo Sekiyu Shigen Kaihatsu (Japan Ocean Petroleum Resources Development) Company will take charge of the project with a total cost of about 200 billion yen.

Its goal over the five years starting in fiscal 1980 is to find wells producing about 96 million kiloliters of crude oil and natural gas.

The amount, if found, would still be a drop in the bucket, considering Japan's annual oil consumption alone totals nearly 300 million kiloliters.

Success, however, would affirm Japan's determination to reduce its dependence on imported oil for energy. Japan relies on oil for most of its fuel needs and 99.7 percent of its oil comes from overseas.

This country produces only 0.3 percent of its crude oil domestically. Success in the project, due to get underway next year, would bring this up to 1 percent, meaning a little less dependence on imported oil.

Japan has proposed to China that the two nations jointly develop continental shelf oil in the waters of Senkaku, an island group north of Taiwan claimed by both the Peking and Tokyo governments.

It may take time before this scheme is actually put into effect, since Taiwan also claims ownership of the uninhabited island group.

The planned oil and gas development program will be launched on the basis of a recommendation made in July by a panel advising the Ministry of International Trade and Industry.

This panel, the development section of the oil deliberation council, believes there are about 370,000 square kilometers of basin suitable for oil and gas exploration in the continental shelf surrounding Japan.

It is not known yet where the project will actually get underway. But the Japan Ocean Petroleum Resources Development Company has successfully developed oil and gas in an offshore well in the Japan Sea off Niigata Prefecture.

The well is about 11 kilometers in the Japan Sea off the mouth of the Agano River in Niigata Prefecture. It produces 260 kiloliters of crude oil and 1.35 million cubic meters of natural gas daily.

The company also found a deposit off the northern island of Hokkaido last February. If all goes well, that well will go into full production operation six years from now.

The company is aiming at oil drilling exploration somewhere in the Japan Sea, about 5,000 meters below the surface of the water.

Officials concerned believe the project will be worth putting into practice in view of the oil crisis triggered in 1973 and also in the wake of the era of $20-per-barrel crude oil.

They said domestically produced oil has a low sulfur content and is of light quality suitable for production of gasoline. The natural gas produced is said to be clean energy.

Japanese oil industry sources say that about 1.3 billion kiloliters of oil and gas may be exploitable in the sea regions surrounding Japan, although they don't say whether this has been scientifically substantiated.

Some officials, meantime, said that a future Japanese oil development project that is likely to pay off is the continental shelf in the Senkaku island area.

The area being considered is a 200,000 square kilometer Okinawa-East China Sea region.

The United Nations Commission for Asia and the Far East (ECAFE), a predecessor of the U.N. Economic and Social Commission for Asia and the Pacific, reported in 1968 that "there is a strong possibility of oil and natural gas deposits in this region."

It is said to be the only single area where as much as 800 million kiloliters of oil may be found, according to officials.

Chicago Commodities

CHICAGO (UPI) — Wheat and soybeans were substantially lower, corn irregularly lower and oats lower at the close Thursday on the Chicago Board of Trade.

Wheat was off 7½ to off 12½ cents; corn off 2¼ to off 5; oats off 1½ to off 2¼; and soybeans off 3 to off 9½.

The market showed a lot of local trading ahead of the monthly Conrad Leslie crop report released near the close. Traders were expecting about what the crop indicated — a 7.3 billion bushel corn crop and a 2.2 billion bushel soybean crop.

CSO: 4120

ECONOMIC

MITI GIVING UP ON INDEPENDENTS FOR ACQUIRING CRUDE

Tokyo ASAHI EVENING NEWS in English 5 Sep 79 p 5

[Weekly Economic Review column by George Murakami: "MITI May Stop Protecting the Oil Industry"]

[Text]

LET me recapitulate what I said in this space last week about the case of Toa Oil, a small independent Japanese refiner. Toa has deficits of ¥7.2 billion, owes ¥30 billion to C. Itoh & Co., the big Osaka trading house. In even worse shape is Toa-Kyoseki, a joint refining venture Toa has with Kyodo Oil (Kyoseki), the Government-backed sales agency for Toa and five other Japanese independents. Toa-Kyoseki has ¥51.4 billion in deficits.

C. Itoh, which with its associates owns 44 percent of Toa, is selling a controlling 25-percent interest to Showa Oil, the affiliate in Japan of Royal Dutch Shell. Some details remain to be worked out but Showa is expected to take over Toa in October. Under terms of the deal, C. Itoh will market half of Toa's output.

Showa presumably is buying into Toa in order to expand its 11.9-percent share of the Japanese oil market. Also, Showa earlier had entered into a 20-year contract with Toa in which the latter is to refine crude for it on consignment, an arrangement which would cost Showa ¥30 or ¥40 billion. With Toa under its control, Showa can get better terms for itself. Finally, oil refining and marketing has not been too profitable a business in Japan but it is getting better since refined product prices are now rising faster than the price of crude.

Now about Toa-Kyoseki. C. Itoh is turning it over to Nippon Mining, a copper refiner also deeply in oil. To deal with Toa-Kyoseki's ¥51.4-billion deficit, its capital of ¥12 billion will be cut to zero, which writes off on the books this amount in the deficit. The stockholders — Toa, Kyodo Oil, C. Itoh and Arabian Oil —take the loss but they can't complain since the money's gone anyway. New shares in Toa-Kyoseki will then be issued, with Nippon Mining taking and paying for a controlling interest, thus putting fresh money into the company.

Next, Toa-Kyoseki's assets —a refinery and its site, much of it unused, in Aichi Prefecture — will be revalued up. The assets are now on the books at original (1973 and earlier) cost but inflation since then has sent up their worth. Part of the idle land may be sold. Any remaining deficit will be borne 50-50 by C. Itoh and Nippon Mining. This bookkeeping sleight-of-hand sounds a bit unreal but that's the way it's done.

Toa-Kyoseki's refinery is operating at only 60 percent of its 100,000-barrels-a-day capacity, the chief reason for its troubles, but C. Itoh plans to shift 40,000 barrels of Toa's daily output to Toa-Kyoseki. The shift may not be to Showa's liking and could become a sticking point in the Toa deal.

Nippon Mining is taking over Toa-Kyoseki for much the same reasons as Showa's in Toa's case. C. Itoh, in unloading Toa-Kyoseki, is giving Nippon Mining favorable terms and not only because it is being relieved of a basket case. It is a big importer of crude — 400,000 barrels a day—and will continue to have a customer in Toa-Kyoseki. It will need Toa-Kyoseki's output to supply its profitable marketing subsidiary, C. Itoh Fuel. Again, among the major trading houses, C. Itoh's metals division is the weakest and better connections with Nippon Mining will help here.

The loser in these deals looks to be Kyodo Oil. It is the joint sales agency for Toa, Nippon Mining and four other small independents, and the Ministry of International Trade and Industry is its chief backer. Toa is expected to drop out of Kyodo, and the other four refiners are not going to like the much bigger weight Nippon Mining will command with its acquisition of Toa-Kyoseki. The chronic squabbling within Kyodo is already mounting. Moreover, MITI has given its tacit blessing to Showa's takeover of Toa and is having second thoughts about oil policy.

In the days before the 1973 oil crisis, which changed everything, MITI focused on the downstream aspects (refining, marketing) and not upstream (exploration, crude production) in trying to build up the independent refiners and reduce the domination of the domestic oil products market by the affiliates in Japan of the international oil companies—the "majors." Policy has now moved upstream, to getting enough crude. As a MITI official puts it in an adaptation of Deng Xiaoping's saying, "It doesn't matter whether the cats are black (foreign alliates) or white (independents) so long as they catch the mice (oil)."

The independents are doing little about catching mice. Aside from Idemitsu Kosan, the largest of them, the independents have no representatives abroad to secure crude and rely on the majors and trading houses like C. Itoh. When crude was in surplus, the majors obligingly gave the independents credits to buy it and loans to build and expand refineries. Now, the majors are being forced to cut supply to refiners other than their own affiliates as the oil-producing countries take over a growing share of the marketing of their crude output.

Although the Government has not done much to encourage the independents in past years to move upstream into exploration and production abroad, the fault of omission may lie more with the independents themselves. Arabian Oil of Tokyo is the only large Japanese overseas producer, operating wells in the Kuwait-Saudi Arabia Neutral Zone. Its late founder - president, Taro Yamashita, had been a business executive in Korea and Manchuria—an economic imperialist or colonialist type, if you like, but an aggressive, adaptable man of the kind not to be found these days among Japanese oil executives. The trouble with the Japanese oil industry, say many people, is that it is protected, favored, regulated by MITI. It needs alley cat types, not lap pets, if it is to get the mice.

MITI is implying it is giving up on the independents and will rely on governmental agencies like the Japan Petroleum Development Corporation to do the job. This may be a logical step since, as has been said, the oil-producing states are doing more of their own marketing of crude. Also, oil is becoming increasingly a political commodity. The implications are disquieting, and how well matters will go along this new policy line, if it is followed, remains to be seen.

Meanwhile, at home, if MITI goes through with the idea of less protection and more competition in oil, there will be more cases like Toa's and likely consolidation of the independents into fewer, stronger and perhaps more aggressive units.

CSO: 4120

ECONOMIC

SALE OF TOA OIL TO SHOWA OIL EXPLAINED

Tokyo ASAHI EVENING NEWS in English 29 Aug 79 p 5

[Article by George Murakami in column "Weekly Economic Review": "C. Itoh Gets Rid of a White Elephant"]

[Text] THE big business news item last week was the deal under which C. Itoh & Co., No. 3 among the big trading houses, agreed to sell working control of Toa Oil to Showa Oil, the affiliate in Japan of Royal Dutch Shell. In a related agreement, C. Itoh is also to hand over control of Toa Kyoseki, a joint venture of Toa Oil and Kyodo Oil (Kyoseki), to Nippon Mining, a metal refiner which is heavily in oil. Various details remain to be worked out but the deals are rated as firm and are expected to go through by October.

The consequences are numerous and complex. The Ministry of International Trade and Industry has given its tacit blessing to the arrangements, and this signals important changes in Japan's oil policies. Kyodo Oil, which MITI has long sponsored as a means of building up the Japanese oil independents, may break up. Shell, through Showa Oil, looks to expand its 11.9-percent share of the Japanese oil market. C. Itoh, although it still has heavy burdens, should come out ahead. Consolidation, meaning merger or new working ties, among the smaller independents is likely.

The complexities involved are Byzantine but I hope you will bear with me as I try to get clear some of the details and implications. The oil game is important in these energy-crisis days and you should have some idea of the local players and umpires. Also, oil is big money, although I will be discussing mostly big losses, which may not be as interesting.

The oil refining industry in Japan is divided between the companies linked with the international oil firms—the "majors" — and the Japanese oil independents. In the first category, the major either owns a controlling interest in the Japanese firm or is in with it in a joint refining venture. Shell has 50 percent of Showa, Esso (Exxon) and Mobile 25 percent each of Toa Nenryo, Getty Oil 50 percent of Mitsubishi Oil. Caltex (a joint firm of Standard Oil of California and Texaco) has a joint refining venture with Nippon Oil, the largest oil company in Japan, and also a 50-percent interest in Koa Oil. Esso recently acquired a 49-percent interest in General Sekiyu and has as well a joint refining affiliate with it.

Among the independents, Idemitsu and Maruzen Oil are the largest. The rest, including Toa, are fairly modest in scale. Toa, Nippon Mining and four other small independents, with MITI's urging and backing, formed Kyodo Oil to act as their joint sales agent. MITI at one time had fond dreams of developing Kyodo into Japan's own international major, like British Petroleum or French Petroleum, operating both "upstream" (exploration, crude production) and "downstream" (refining, marketing), but the fact is that Kyodo has never gone very well because of the squabbling among its member companies.

The Petroleum Industry Law of 1962 was enacted when Japan lifted import controls on oil and gave MITI a measure of control over the industry. The law focused almost entirely on the downstream aspects and a MITI council, through its power to grant new refinery permits, regulated the capacity of the various companies. Although there was some concern that the law would be administered so as to favor the independents, the refiners affiliated with the majors continued to hold the lion's share of the market and they still do.

C. Itoh bought into control of Toa in 1965. This was at a time when world oil supply was in surplus, Japan had shifted from domestic coal to oil as its chief energy source and oil looked like a big growth field. Under provisions of the Petroleum Industry Law, C. Itoh in acquiring Toa got the right to import oil directly and also the right to market refined products. The Toa connection was also useful in building up overseas business ties—C. Itoh could represent itself as the owner of an oil refining company—and the trading house now imports around 400,000 barrels of crude daily. It also built up a subsidiary, C. Itoh Fuel, into one of the biggest oil distributors in Japan.

Toa itself, however, turned out to be a disaster. A venture in tankers was a costly failure. A ¥75-billion gas desulfurization facility at its Kawasaki refinery is a white elephant. The biggest mistake was the joint refining venture with Kyodo. The Toa-Kyoseki refinery at Chita, Aichi Prefecture, is operating at only 60 percent of capacity and has run total deficits of ¥51.4 billion. Toa's own cumulative losses, within the company itself, are ¥7.4 billion.

Moreover, C. Itoh has loaned Toa about ¥20 billion and its subsidiaries another ¥12 billion, and the annual interest costs on financing extended by it to Toa-Kyoseki run to ¥7 billion. Further, C. Itoh has absorbed through merger, another big trading house that nearly went under, and this is a big burden. It was involved in an operation to rescue Toyo Kogyo, the automobile manufacturer, but was forced to turn this over to the Sumitomo Bank.

How C. Itoh was able to unload these basket cases on Showa Oil and Nippon Mining and the terms of the deals is a long story, which I will take up in this space along with ruminations on MITI's oil policies and the consequences for the oil industry.

CSO: 4120

ECONOMIC

RETIRED MITI OFFICIALS SNAPPED UP BY STEEL INDUSTRY

Tokyo ASAHI EVENING NEWS in English 13 Aug 79 p 5

[Article by Yasushi Hara in "The Nation" column: "Economically Speaking"]

[Text] Competition has become intense in the steel industry during the past several years in the hiring of officials retiring from the Ministry of International Trade and Industry.

Cozy relations have developed between MITI and the industry, which operates under a cartel-like setup in which the ministry lays down guidelines on such matters as levels of crude steel production and regulation of plant capacity of the major steel companies. These relations now look to get even closer with ex-MITI officials moving into management posts in the steel companies.

The companies, in hiring them, say they are preparing for the coming era of more aggressive operations to meet the intensified competition in world steel markets from the new industrial developing countries. Whatever may be the reason, this process of ex-officials from MITI and other government agencies shifting into the steel industry does raise various questions.

Among such officials are Kinzo Matsuo (ex-MITI vice minister), now board chairman of Nippon Kokan (NKK), Yukio Miyake (former director general of the Patent Agency), an NKK managing director, and Chihaya Kawada (former deputy director of the Economic Planning Agency), vice president of Kawasaki Steel. Last year, there was the case of Norifumi Kumagai, a former MITI vice minister, who became president of Sumitomo Metal. At Nippon Steel, Eiji Yamagata (a former director-general of the Natural Resources and Energy Agency) was promoted at the general stockholders' meeting in June from ordinary director to managing director. Yugoro Komatsu, another former MITI vice minister, who entered Kobe Steel last September as an advisor has been moved up to vice president and with the promise of eventual succession to the presidency.

What all this means is that ex-officials of MITI and other economic ministries and agencies make up a prominent part of the executive rosters of managing directors and higher in the Big Five steel companies. This may be unavoidable to some extent in the case of Nippon Steel, whose precursor was a state-backed corporation, but some people even in the steel industry feel that the practice of former MITI bureaucrats moving into the posts of vice president and president of the other four major steel companies is inappropriate.

One reason the big steel companies like to have ex-MITI officials is their usefulness in liaison and other contacts. For example, a meeting took place at a Tokyo restaurant between MITI Minister Masumi Esaki and other senior ministry officials and the heads of the major steel companies, including Yoshihiro Inayama, president of the Japan Iron and Steel Federation. The federation was getting a new president, and this was a meeting held for introductory purposes. The man who arranged it was Yamagata, the former director general of the Resources - Energy Agency (which is part of MITI) and a managing director at Nippon Steel. MITI had hinted to him that it wanted the meeting, Yamagata took the matter to his colleagues at Nippon Steel, and the get-together of leaders of Japan's top industry and Government policymakers was set up.

Again, for the steel industry to get through the years of uncertainty ahead, it needs executives who customarily take a broad view of matters. Here, MITI officials are rated favorably for their ability and experience in dealing with high-level policy problems. Kumagai, the ex-MITI bureaucrat as president of Sumitomo Metal, sees the process of tighter management as having run its course and is now building up the company's steel fabrication and engineering divisions. At Kobe Steel, another ex-official now serving as its vice president, Komatsu, is counted on to bring better teamwork among its steel, aluminum and machinery divisions.

There is much that is still strong and flourishing in the Japan Inc. concept.

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ECONOMIC

BRIEFS

YEN CREDIT TO MEXICO--The Japanese Government has informed the Mexican Government of its plan to provide a 30 billion yen credit to Mexico to help finance the (Las Toluchas) iron works project. The yen credit will be spent for port and road construction and other infrastructural maintenance to support the iron works project, the biggest industrialization plan in Mexico. The credit, to be appropriated from the overseas economic cooperation fund, is designed to give financial aid to the economic development of Mexico and hopefully increase crude oil imports from that country. The plan was conveyed to Mexican Government leaders by Foreign Minister Sonoda and Minister of International Trade and Industry Esaki during their recent visit to the Central American country. [Tokyo NIHON KEIZAI SHIMBUN in Japanese 30 Aug 79 Morning Edition p 1 OW]

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